GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2615
ANSWERED ON:31.08.2007
BHADRAPADA SAKA VAT ON LPG CYLINDERS.
Pradhan Shri Dharmendra

Will the Minister of FINANCE be pleased to state:

(a) whether the Value Added Tax (VAT) on LPG cylinders has been reduced from 12.5% to 4% by the State Governments;

(b) If so, the details thereof;

(c) whether the Government of Kerala has requested to the Union Government that this benefit be transferred to consumers; and

(d) If so, the reaction of the Government thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b): Yes, Sir. The ceiling for VAT levied by the State Governments on the sale or purchase of LPG cylinders has been reduced from 12.5% to 4% in consequence of including "LPG for domestic use" in the list of goods of special importance in inter-state trade or commerce, under Section 14 of the Central Sales Tax Act, 1956, with effect from 18.04.2006.

(c): Yes, Sir. A request in this regard was received from the Government of Kerala in the Ministry of Petroleum and Natural Gas.

(d): The public sector oil marketing companies (OMCs) have been bearing huge under- recoveries in marketing of domestic LPG. Consequent to dismantling of Administered Pricing Mechanism, the impact of changes in international prices of LPG was to be passed on to the consumers. However, despite steep increase in the price of crude oil and petroleum products in the international market, the domestic price of LPG was last increased marginally during 2004 and has not been revised since 05.11.2004. In order to give relief to OMCs, domestic LPG is partially subsidised by the Central Government from the Budget. Moreover, the OMCs were allowed to retain the Retail Selling Price of LPG even though the Government of India also reduced the customs duty on LPG (Domestic) from 10% to NIL in Union Budget 2005 and the excise duty was also reduced from 16% to 8% during June, 2004 and from 8% to NIL during Union Budget 2005. In spite of the subsidy and allowing retention by the OMCs of the benefit arising due to reduced customs duty and excise duty on domestic LPG, the under-recoveries of the OMCs continue to be still very high. Therefore, the OMCs were constrained to maintain the current retail selling prices, in spite of the domestic LPG being placed in the category of declared goods in the Budget for 2006-07 and the State Sales Tax / VAT rate being pegged at 4%, in the context of the losses and under-recoveries suffered in marketing the product.